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Annual Report 1965

AIR CANADA

ANTIGUA
BARBADOS
BERMUDA
BOSTON
CALGARY
CHICAGO
CLEVELAND
DUSSELDORF
EARLTON
EDMONTON
FORT WILLIAM
FREDERICTON
FREEPORT
GANDER
GOOSE BAY
HALIFAX
JAMAICA
Kingston
Montego Bay
LETHBRIDGE
LONDON, ENG.
LONDON, ONT.
MONCTON
MONTREAL
NASSAU
NEW YORK
NORTH BAY
OTTAWA
PARIS
PORT ARTHUR
PRESTWICK
QUEBEC CITY
REGINA
ROUYN-NORANDA
SAGUENAY
SAINT JOHN
ST. JOHN'S
SASKATOON
SAULT STE. MARIE
SEATTLE
SEPT-ILES
SHANNON
STEPHENVILLE
SUDBURY
SYDNEY
TAMPA
TIMMINS
TORONTO-HAMILTON
TRINIDAD
TROIS-RIVIERES
VAL D'OR
VANCOUVER
VICTORIA
VIENNA
WINDSOR
WINNIPEG
YARMOUTH
ZURICH

AIR CANADA

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AIR CANADA

BOARD OF DIRECTORS:

Appointed by Governor-in-Council:

THE HON. LESLIE M. FROST, Q.C., LL.D., Toronto

G. R. McGREGOR, O.B.E., D.F.C., F.R.Ae.S., HON. F.C.A.S.I., Montreal

R. H. McISAAC, Winnipeg

J. G. SIMPSON, Halifax

Elected by the Shareholders:

R. A. BROWN, Jr., Calgary

DONALD GORDON, C.M.G., LL.D., Montreal

W. C. KOERNER, Vancouver

J. LOUIS LÉVESQUE, Montreal

BERNARD TAILLEUR, Montreal

OFFICERS:

President: G. R. McGREGOR

Senior Vice President—Operations: H. W. SEAGRIM

Senior Vice President—Sales: W. G. WOOD

Vice President—Finance: W. S. HARVEY

Vice President—Purchases and Stores: H. C. COTTERELL

Vice President—Administrative Services: S. W. SADLER

Director, Public Relations: R. C. MacINNES

Secretary: R. T. VAUGHAN

General Counsel: H. C. FRIEL, Q.C.

General Attorney: I. E. McPHERSON

EXECUTIVE OFFICES:

Place Ville Marie

Montreal, Quebec

The Year in Brief

	1965	1964	% Change
Revenue Passengers Carried	4,753,395	4,189,349	+13
Revenue Passenger Miles	3,715,635,000	3,150,956,000	+18
Revenue Ton Miles	444,139,000	368,305,000	+21
Average Return per Passenger Mile*	5.93¢	6.06¢	— 2
Average Return per Revenue Ton Mile	56.07¢	57.73¢	— 3
Passenger Load Factor	65.2%	63.4%	
Weight Load Factor	51.2%	51.5%	
Operating Cost per Available Ton Mile	27.35¢	28.47¢	— 4
Total Cost per Available Ton Mile	28.35¢	29.73¢	— 5

* Excludes Charter

Financial Review

OPERATING RESULTS FOR 1965 COMPARED WITH 1964 ARE AS FOLLOWS:

	1965	1964	Change
Income from operations	$44,987,638	$38,157,482	+$ 6,830,156
Depreciation and amortization	32,263,097	27,774,510	+ 4,488,587
Operating profit	$12,724,541	$10,382,972	+$ 2,341,569
Non-operating income — net	2,563,331	2,513,861	+ 49,470
Income before interest expense	$15,287,872	$12,896,833	+$ 2,391,039
Interest on loans and debentures	11,297,912	11,491,258	− 193,346
Net income	$ 3,989,960	$ 1,405,575	+$ 2,584,385

Annual Report 1965

February 1, 1966

TO THE HONOURABLE

THE MINISTER OF TRANSPORT, OTTAWA

Sir,

The Board of Directors submit the Annual Report for the Air Canada system for the year 1965.

Greatly increased passenger and commodity traffic during this period resulted in record revenues and substantial improvement in the airline's already sound economic position.

Higher utilization of an enlarged and more productive fleet provided additional capacity to accommodate the demand for passenger and cargo transport.

Financial

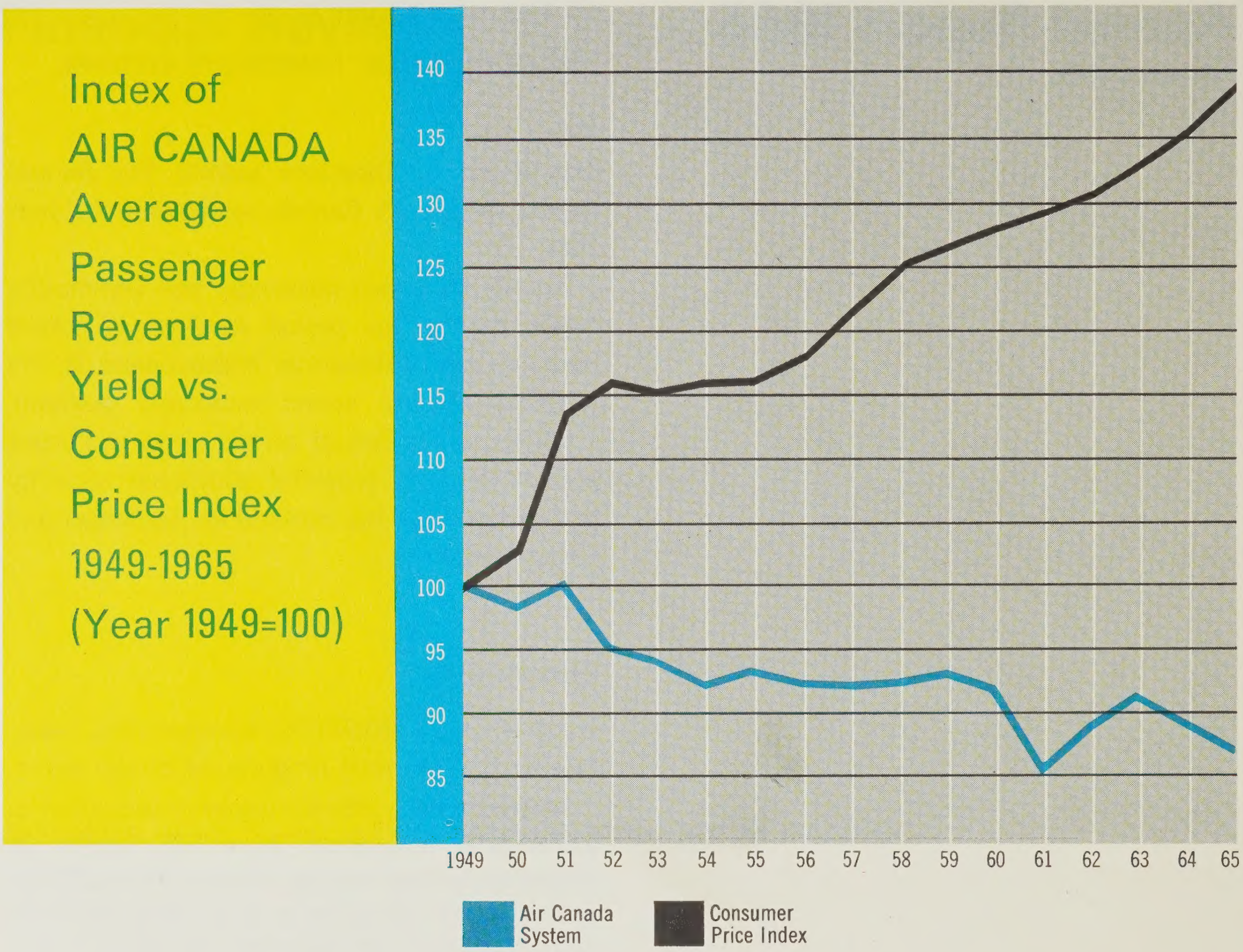
A net income of $3,989,960 was recorded, maintaining the financial progress of recent years.

Income before interest expense amounted to $15,287,872, equivalent to a 6% return on investment. After paying interest of $11,297,912 on loans and debentures, a dividend on common stock was declared for the second successive year. The rate was increased from $3 to $4 per share.

The year's operations resulted in revenues of $250,125,520. Passenger revenues increased 19%, with the average revenue per passenger mile declining slightly to 5.93¢. A downward trend in passenger fares over the years has contrasted sharply with the steady rise in prices generally. Combined freight and express revenues, up 30%, recorded the highest rate of growth.

Operating expenses, at $237,400,980, increased 17%, while the production of available ton miles rose 21%. Operating cost per available ton mile was reduced from 28.47¢ to 27.35¢.

No Federal or Provincial corporation income taxes were payable for 1965, as sufficient capital cost allowances were available from prior years. However, the Company's tax payments were



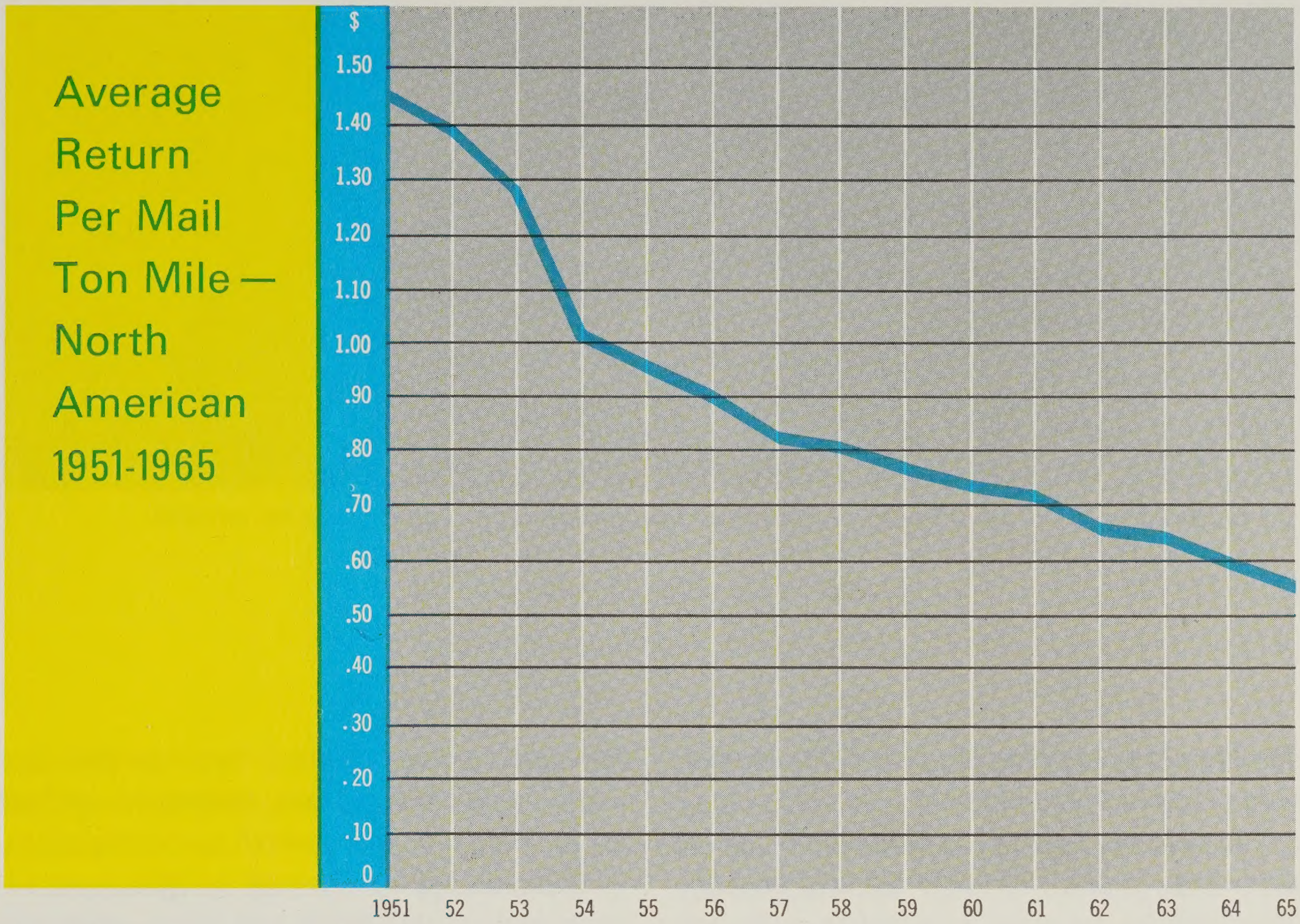
substantial. Provincial and Municipal obligations alone, made up of property, fuel and sales taxes, amounted to $3,450,000 compared with $2,960,000 in the previous year. Furthermore, the Company, acting as agent for Canadian governments, collected over $10 million of payroll taxes from its employees.

Capital expenditures during the year totalled $13,457,548, well within the capital budget, and made up principally of progress payments related to future aircraft deliveries described in the Equipment and Facilities section of this Report. Cash generated during 1964 and 1965 will be used to meet new aircraft payments scheduled for early 1966, the fourth successive year in which no borrowing will be required to meet capital expenditures.

Traffic and Service Growth

Sustained development in all phases of the airline's operations made 1965 an exceptional year in terms of both traffic and revenues. Air Canada carried 4,753,395 passengers on scheduled and charter services in 1965, an increase of 13% over 1964, as the volume of business exceeded expectations. This situation was general throughout the industry, with virtually all major air carriers reporting notable traffic growth. Total scheduled seat miles offered were 5,458 million, up 18%, while revenue passenger miles flown exceeded 3,542 million, an increase of 21%. The passenger load factor rose from 63% in 1964 to 65% in 1965.

North American passenger miles flown, which represented almost three-quarters of Air



Canada's scheduled passenger traffic, increased 17% as the airline introduced additional services on most major domestic routes. The Company flew 2,591 million domestic passenger miles in 1965 as compared to 2,213 million in 1964. This growth can be largely attributed to the economic health of the country and an intensified awareness by Canadians of the value of air transport, both as a consumer purchase for vacation or personal travel and as an instrument of efficient business management.

There was a 33% increase in scheduled trans-Atlantic passenger traffic. This gratifying growth followed a 23% increase in 1964, the result of new low fares introduced in April of that year. These same low fares, coupled with greater flight frequencies and additional non-stop services, accounted in large measure for the substantial advancement in trans-Atlantic passenger traffic in 1965.

On routes to Florida, Bermuda, the Bahamas and the islands of the Caribbean, passenger miles flown exceeded 307 million, up 36% from 1964. This dramatic improvement in scheduled traffic was primarily the result of lower fares and comprehensive advertising and sales promotion programs by the airline and the resort areas which considerably expanded travel in off-season summer months as well as during the popular winter period.

For the fourth successive year there was marked expansion in commodity traffic, with air freight increasing 36% to 56 million ton miles, surpassing mail as a source of revenue

A ramp attendant guides a turbine-propellor Vanguard into its parking place on arrival at the terminal.

for the first time. Air express rose 27% to five-and-a-half million ton miles.

This protracted pattern of exceptional annual commodity traffic growth is the consequence of added jet freighter capabilities, with one all-freighter DC-8 being introduced on transcontinental routes November 1, and the extension of DC-8 jet service in mixed 69 passenger/seven pallet configuration to continental Europe during 1965.

The all-freight jet, capable of carrying 70,000 pounds of cargo on 12 pallets, operated five days a week between Montreal and Vancouver with enroute stops, while the mixed-configuration jet operated between Montreal and London three days a week, with stopovers at Shannon on two of those days, continuing to Zurich and Vienna twice weekly and to Paris once a week. In addition, all Air Canada passenger aircraft carried substantial quantities of freight and express in cargo holds.

Of equal importance to continuing expansion of commodity traffic is the growing awareness of the business community of the impact of air freight upon the distribution and procurement programs of companies both large and small. More and more, business organizations are realizing the tremendous advantages offered by air freight in their overall marketing plans.

Domestic mail traffic rose by 10% to an all-time high of 14,044,000 ton miles, while the rate per ton mile continued its progressive decline to an average of 56¢ for the year. The Company continued to give every possible assistance to the Post Office Department of Canada and takes pride in participating in one of the best air mail services in the world at the lowest postage rates. No other country offers air mail service for one ounce letter mail within its borders at the rate of only five cents per letter.

Further expansion took place on the competitive international routes where increases in mail volume and revenue were also achieved. The reciprocal mail agreements with foreign airlines, which Air Canada pioneered, have now been extended to include six foreign carriers, thus facilitating rapid despatch of air mail letters from Canada to foreign destinations by the most suitable flights of Canadian or foreign airlines.

On the transcontinental route, the airline

supplied up to 47 return flights a week with DC-8 jets and additional capacity with turbine propeller aircraft.

Continuing its commercial agreement with British Overseas Airways Corporation on trans-Atlantic routes, Air Canada and the British airline provided up to 40 return flights a week during the summer between Canada and the United Kingdom. Air Canada operated 11 weekly flights between Canada and continental Europe during the peak summer period.

In April 1965, a new daily non-stop service was inaugurated between Montreal and Paris, continuing on to Dusseldorf. Designated "Europe 870" eastbound and "Canada 871" westbound, this eminently successful trans-Atlantic operation is now maintained on a year-round basis.

The airline acquired a new southern destination when service was introduced December 13 between Toronto and Freeport, Grand Bahama Island, on a once-a-week basis. The following day a weekly non-stop service began between Halifax and Bermuda, providing the Atlantic Provinces with direct flights to Bermuda, and onward connections to the islands of the Caribbean, for the first time.

An innovation widely acclaimed by passengers in 1965 was the introduction in September of more liberal free baggage allowances on North American routes. Economy and First Class passengers may now carry, free of charge, two checked suitcases and hand baggage, depending on size but regardless of weight, provided that the latter fits easily beneath the passenger's seat.

A new DC-8 jet service was introduced in April between New York and Vancouver, with a stop at Toronto, to connect with Canadian Pacific Airlines' jet service from the West Coast to the Orient, as the two carriers continued to cooperate in presenting a united Canadian front in the highly-competitive field of international air transport.

Air Canada again had the privilege of carrying Queen Mother Elizabeth when Her Majesty flew from London to Toronto June 23 on a scheduled flight.

At the end of 1965 Air Canada was operating over 42,343 route miles, linking Canada, the United States, the British Isles, continental Europe and the Caribbean as the free world's

ninth largest commercial airline. It continued to compete successfully with other experienced foreign operators for its share of the international travel market on routes between North America and Europe, across the border to the United States and south to the tropical islands. The extensive route pattern, developed over the past 28 years, is illustrated on pages 12 and 13.

Equipment and Facilities

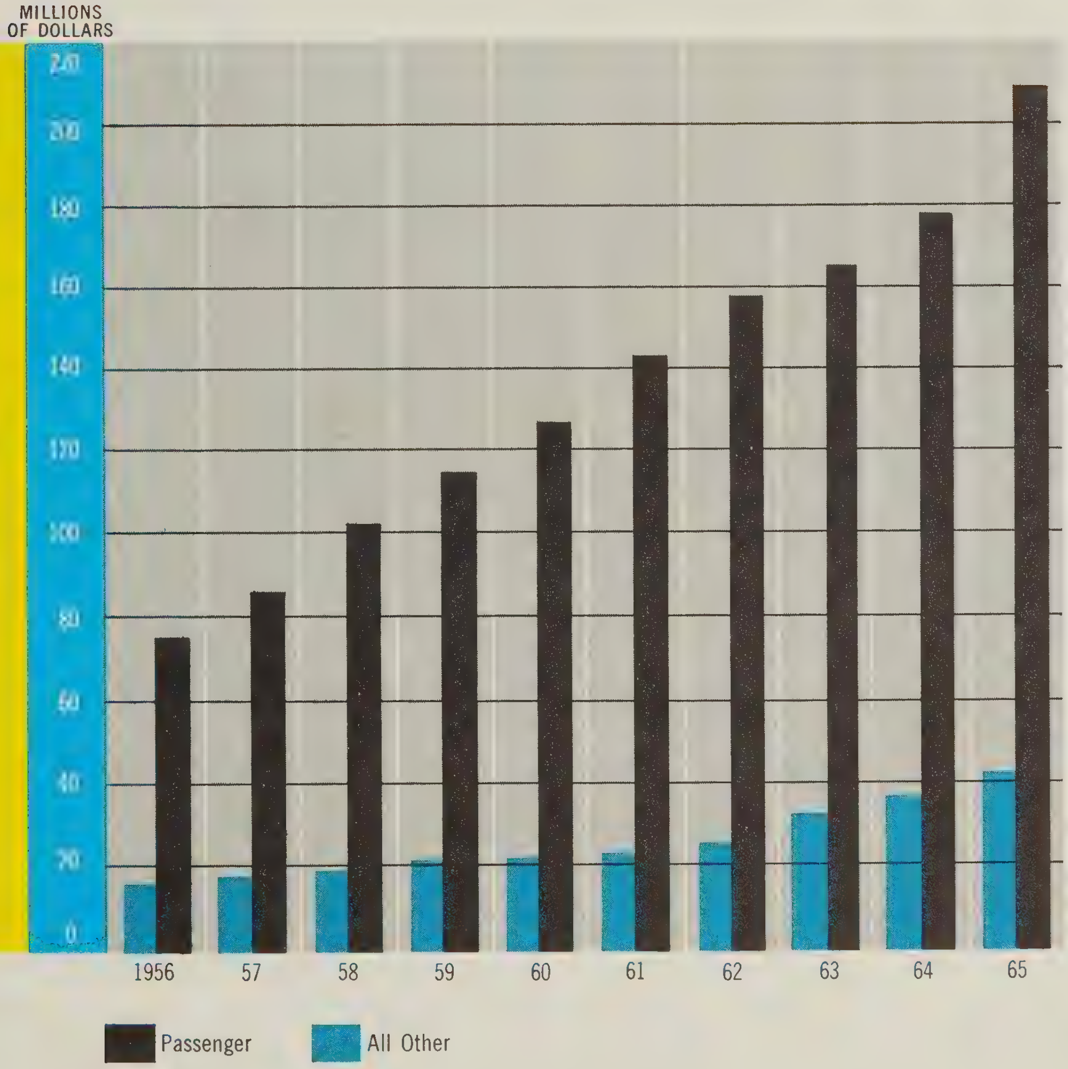
The Company became committed in 1965 to the purchase of 16 new jets, to be delivered in 1967. These aircraft, together with eight others specified in 1963 and 1964 for delivery in 1966, will increase Air Canada's fleet of jets to 40 aircraft by June, 1967.

Two 139-passenger DC-8s and six 72-passenger DC-9 twin jets will be accepted in 1966. Four extended versions of the DC-8 and 12 extended versions of the DC-9 will be acquired in 1967.

Almost half of the airframe of the DC-9 is being built in Canada, providing employment for more than 4,000 highly skilled Canadians.

During the year, the Company's all-turbine fleet of 16 DC-8s, 23 Vanguards and 39 Viscounts continued to give excellent service on the wide variety of short, medium and long-range routes operated. Over 54% of the total seat miles made available was provided on jet aircraft. This will grow to 59% with acquisition of additional jets in 1966.

Sources of System Revenues, 1956-1965



ROUTES of AIR CANADA

AIR CANADA SERVICES
CONNECTING SERVICES

The borders, boundary lines etc. shown on these maps are as accurate as current political situations will permit. They do not represent the views or opinions of Air Canada or other parties responsible for the reproduction of the maps.

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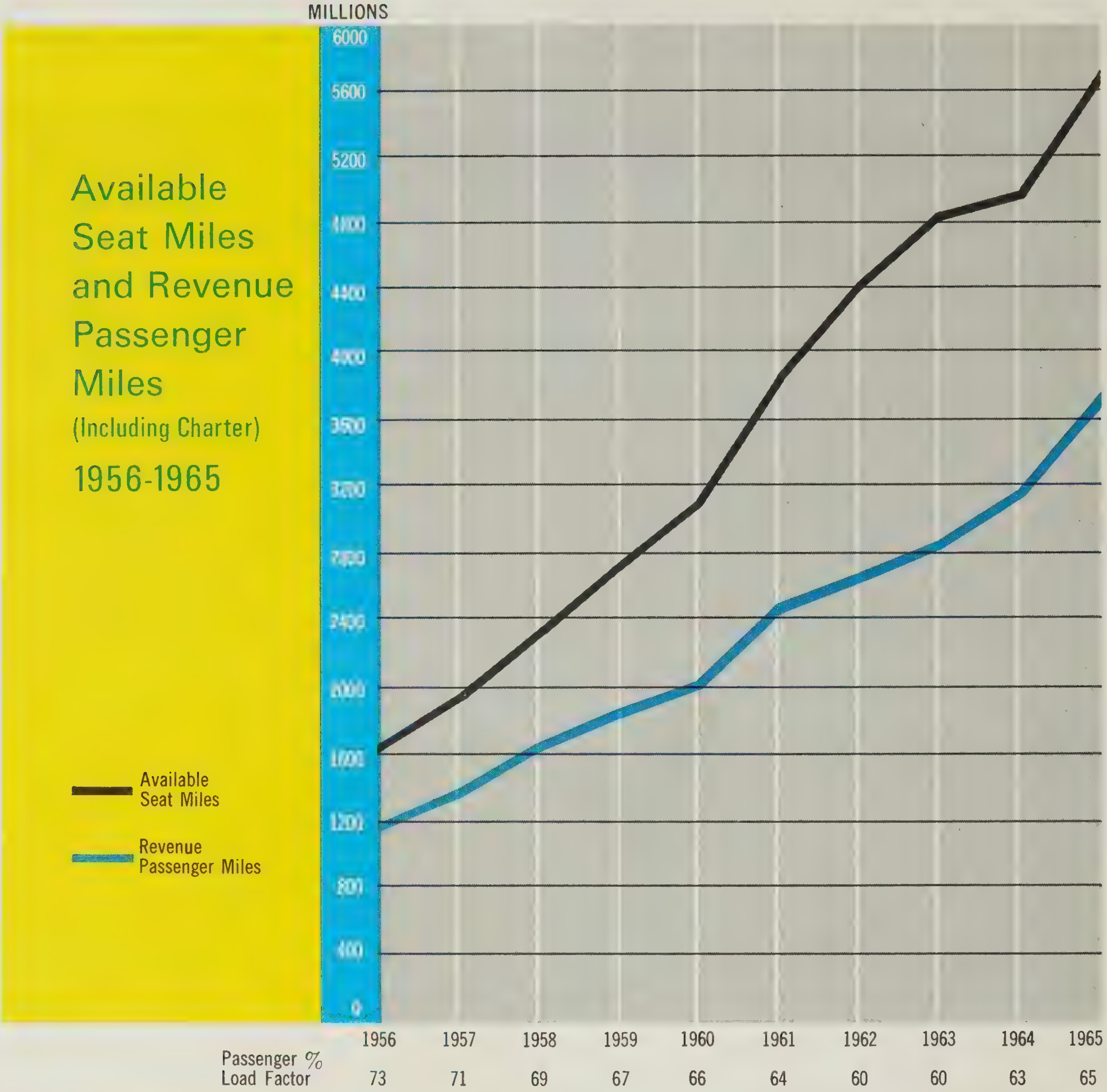


The airline completed 98% of its scheduled mileage, maintaining its world-wide reputation for operating reliability. The credit is shared by the aircraft and the highly qualified employees who maintained, serviced and operated them.

Air Canada became the first Canadian company to present the design concept for its Expo '67 pavilion when it unveiled plans for a $1,500,000 exhibit. The display will portray the story of aviation, while the unique helical design of the building will capture the spirit of flight.

A new sales office was established in Freeport, while others were relocated in Montreal, Winnipeg, Calgary, Vienna, Hamburg, Tokyo and Kingston, Jamaica. In addition, a number of existing facilities were expanded and refurbished.

A new cargo terminal, one of the most

modern of its kind in the world, was opened at Montreal International Airport by Air Canada to accommodate expanding air freight and express traffic. A second, smaller cargo terminal was completed at Moncton.

The Department of Transport, in a continuing program of airport construction and improvement, opened a new terminal building at London, Ontario. Additional work was carried out at airports across the country, including start of installation of moving sidewalks at Montreal International Airport. All such improvements greatly assist Air Canada's ability to provide good service to its customers.

The Company continued development work on the covered passenger walkways which will be installed at major terminals. In addition to protecting passengers from the weather, the walkways will reduce loading and unloading times.

In April, Air Canada announced that it would move into a new $20,000,000 passenger terminal at New York's John F. Kennedy International Airport in 1968. The airline will share the majority of the available space with British Overseas Airways Corporation, builders of the facility.

An automatic passenger name record system was installed and is expected to become operational by March 1, 1966. Working in conjunction with ReserVec, the airline's electronic reservations system, it will automatically provide individual passenger identification and other pertinent travel data, further improving reservations accuracy.

The extensive name change program neared completion at the year end, with just a few Viscounts remaining to be dressed in the new livery. In most other areas the new name and identifying symbol have been adopted fully.

A pallet of cargo is rolled into a DC-8 jet freighter.

Overhauling a jet engine at the Montreal base.

Personnel

Personnel at the year end numbered 12,709, an increase of 1,039 over the previous year as the airline added staff to accommodate the growing work load.

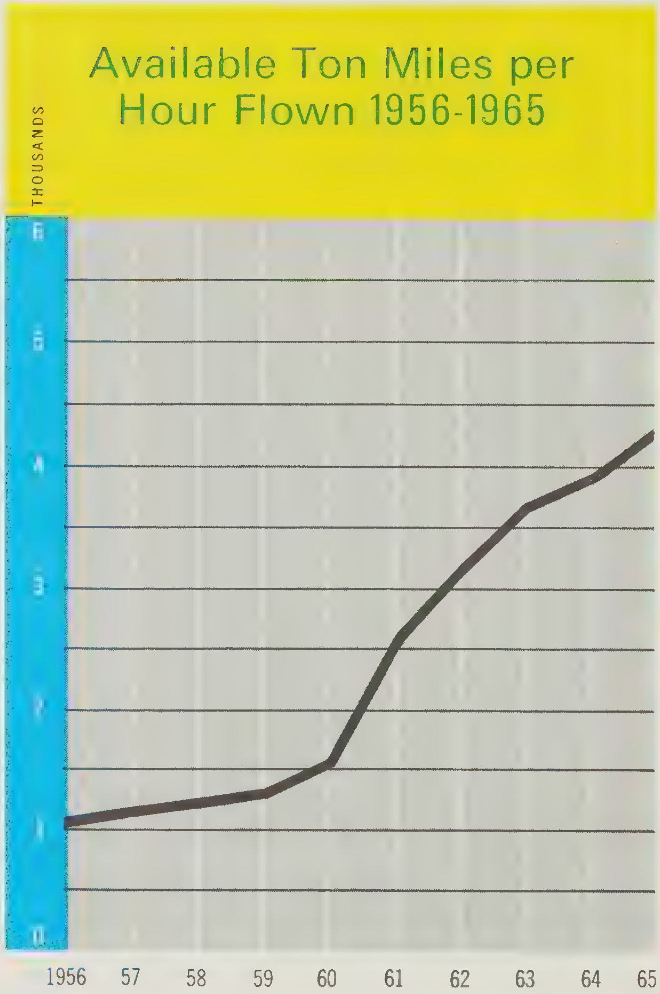
Negotiations conducted with a number of labour groups representing the employees achieved mutually acceptable agreement.

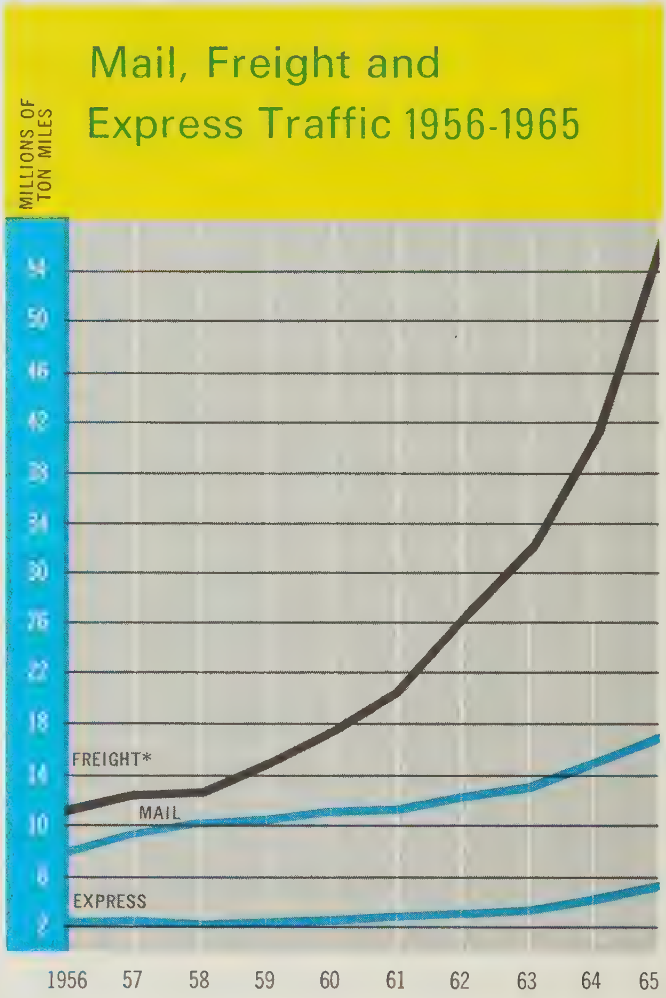
Air Canada's employees possess a concentration of skills and experience of incalculable worth to the airline and to Canada.

Board of Directors

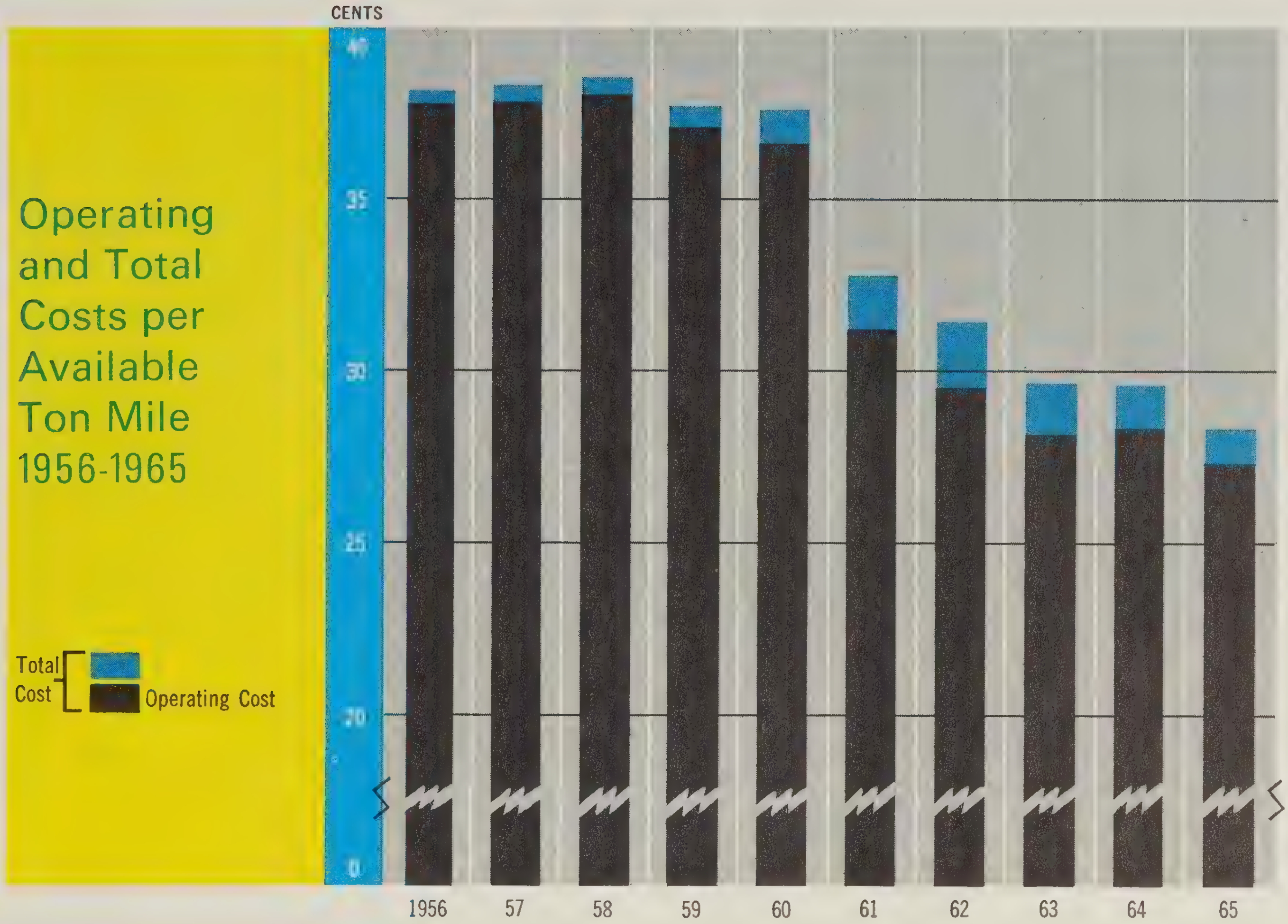
Retiring from the Board in October, 1965, at the conclusion of his three-year appointment, was Mr. R. S. Misener, who contributed generously of his time and experience during his term of office. Appointed to the Board was Mr. R. H. McIsaac of Winnipeg.

With the death of Mr. H. J. Symington on September 28, a towering figure passed from Canada's aviation scene. Mr. Symington, who served as President of the airline from July, 1941, to November, 1947, had been associated with the Company since its inception in 1937. Much of the success of Air Canada today can be directly attributed to the foresight and industry of Mr. Symington who helped to lay the foundations of the Company and the





*Including Charter



nation's airline industry, and guided the country's national carrier through the difficult years of the war.

Outlook

Air Canada expects that passenger traffic will grow steadily in 1966 as Canada's prosperity continues to expand within the framework of a buoyant North American economy. The product provided by the airline in 1965 was superior in terms of customer acceptance, and there will be substantial improvement in that product—in capacity, new routes, scheduling and new non-stop services—in 1966, due principally to the introduction of new jet aircraft.

Commodity traffic will increase quickly as the business community acquires an accumulative awareness of the advantages of air transport in terms of procurement and distribution. Technological advances in ground handling systems, greater aircraft capacity and convenient schedules will ensure continued rapid expansion of cargo services.

The present indications of traffic trends are such that again in 1966 the Company expects to achieve a surplus.

The airline hopes to introduce new direct air service between Western Canada and the United Kingdom in 1966 if successful bilateral discussions are concluded with the British Government. This will give Vancouver, Edmonton and Calgary non-stop flights to London at least once a week. Vancouver will become the hub of this exclusive Western Canada

service, with daily flights to the United Kingdom.

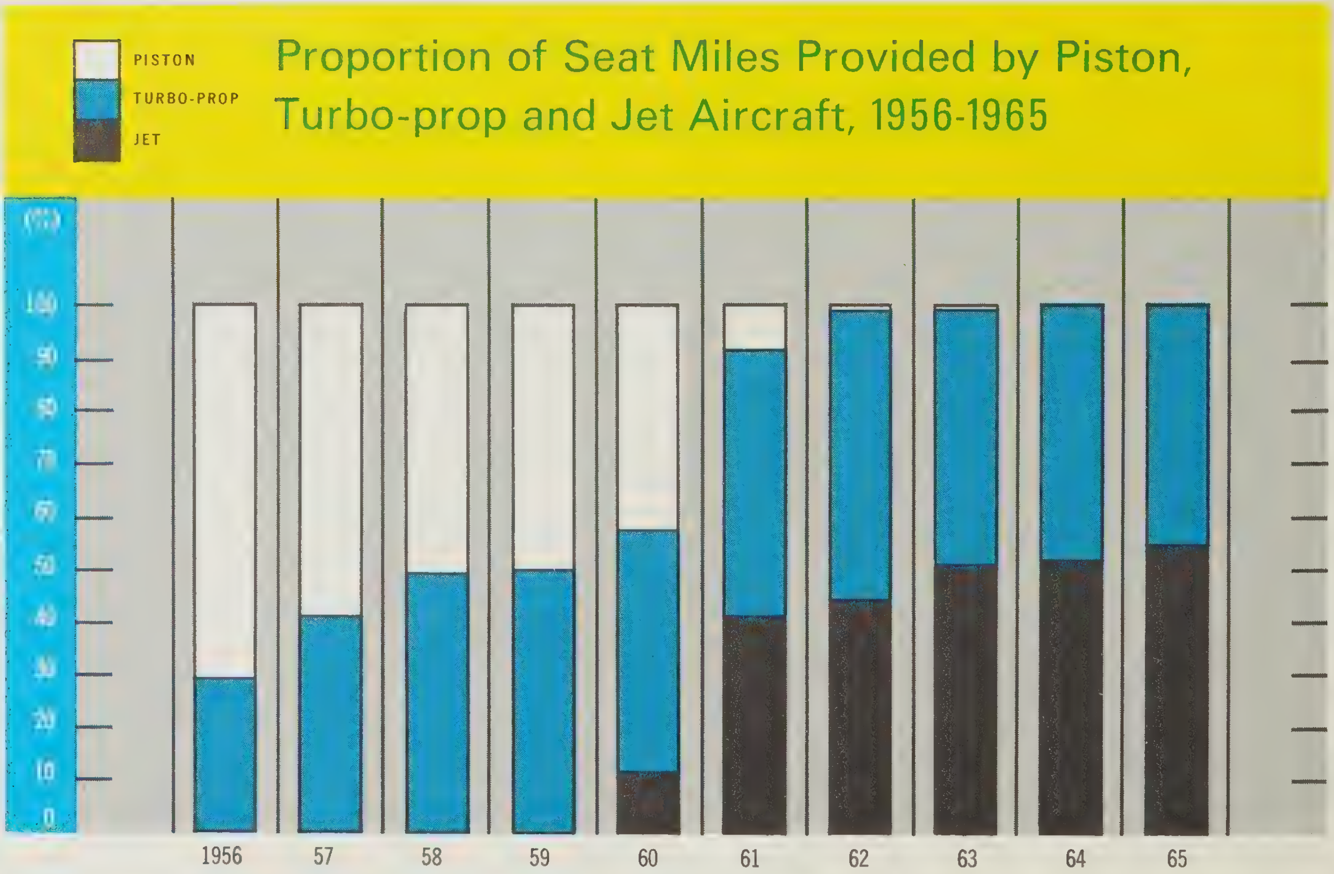
A number of route additions are being contemplated, the most important to Air Canada being those which may be acquired following completion of bilateral negotiations with the United States. If and when authorized to do so, the Company will extend its operations to Miami and Los Angeles, and operate non-stop between Montreal and Chicago.

The airline will transfer its operations in Germany from Dusseldorf to Frankfurt next April to improve service for passengers with onward connections and to facilitate proposed non-stop flights between Canada and Germany.

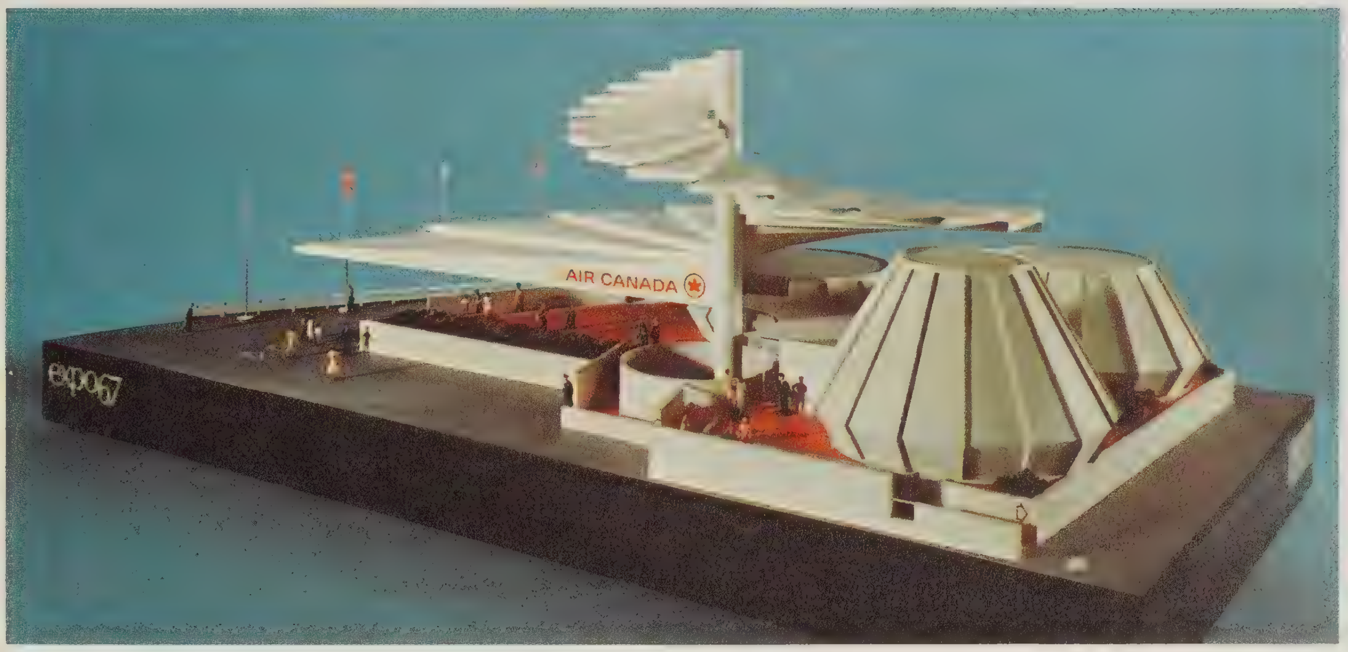
In conjunction with the growth of traffic between Canada and Germany, the Company will open additional sales offices in that country in 1966. The appointment of sales representatives in Warsaw, Poland, and Zagreb, Yugoslavia, due to the increased interest in Eastern Europe now being shown by travellers, has recently been announced.

The DC-9 twin jet will be introduced into service in April, initially on transcontinental routes and to New York City. Operations will be expanded to include a number of other Canadian and United States centres later in the year.

In summary, 1965 was an exceptional year for Air Canada, with excellent growth in all traffic areas, increased frequencies on major routes, expansion of service to new areas and maintenance of a sound financial position. The airline looks forward to 1966 as a year of continuing development, with the introduction of new jet aircraft, greater frequencies on existing routes and the acquisition of new market areas and destinations. Maintenance of the highest possible standards of service, consistent with economic reality, will remain the principal aim of the airline.



Proportion of Seat Miles Provided by Piston, Turbo-prop and Jet Aircraft, 1956-1965



A model of Air Canada's unique helical-roofed pavilion now under construction in Montreal for Expo '67.

Livingroom comfort at Douglas DC-8 jet speed.

Much of the credit for Air Canada's increasing stature in the world of international air transport can be attributed to the dedicated competence and enthusiasm of its employees who are the airline's greatest asset.

For the Directors

G R McGregor

President.

AIR CANADA

BALANCE SHEET as at December 31, 1965

Assets

CURRENT ASSETS		
Cash		$ 40,358,041
Accounts receivable		
Government of Canada	$ 3,639,277	
General traffic	17,456,794	
Other	8,259,447	29,355,518
Materials and supplies — at cost less obsolescence		16,600,724
Other current assets		1,071,447
		$ 87,385,730
INSURANCE FUND		5,288,626
CAPITAL ASSETS		
Property and equipment — at cost	$314,562,634	
Less: Accumulated depreciation	132,513,794	
	$182,048,840	
Progress payments	13,204,606	195,253,446
		$287,927,802

This is the balance sheet referred to in our report to the Minister of Transport dated February 7th, 1966.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants,
Auditors.

Liabilities

CURRENT LIABILITIES			
Accounts payable			$ 9,454,469
Traffic balances payable to other airlines			10,041,539
Air travel plan deposits			1,838,800
Salaries and wages			6,497,130
Unearned transportation revenue			5,756,886
Interest and dividend payable			2,657,442
			$ 36,246,266
LOANS AND DEBENTURES — Canadian National Railways			
Notes payable		$ 55,371,000	
Debentures		180,448,500	235,819,500
INSURANCE RESERVE			5,288,626
CAPITAL STOCK			
Common stock — authorized 250,000 shares par value $100 per share			
— issued and fully paid, 50,000 shares			5,000,000
SURPLUS			
Balance, January 1, 1965		$ 1,783,450	
Net income, year 1965	$ 3,989,960		
Less: Dividend at $4 per share	200,000	3,789,960	5,573,410
			$287,927,802

NOTES:

1. Balance of payments for equipment commitment was $114,000,000. Of this $45,000,000 is due in early 1966.
2. The contingent liability for notes under discount with banks in connection with the Pay Later Plan was $2,162,000.
3. Salaries and wages include provision out of income for the estimated amount due to employees for vacations earned in 1965.

W. S. HARVEY,
Vice President—Finance.

AIR CANADA

Statement of Income

	1965	1964
OPERATING REVENUES		
Passenger	$209,925,578	$177,091,787
Express and freight	19,139,903	14,758,579
Mail	12,699,240	11,902,773
Excess baggage	1,175,774	1,022,433
Charter	6,093,901	7,849,707
Incidental services — net	1,091,124	1,284,429
	$250,125,520	$213,909,708
OPERATING EXPENSES		
Flying operations	$ 52,000,358	$ 44,602,233
Maintenance	51,597,208	43,870,421
Passenger service	19,131,771	15,698,971
Aircraft and traffic servicing	35,754,226	31,158,243
Sales and promotion	36,871,263	31,913,225
General and administrative	9,783,056	8,509,133
	$205,137,882	$175,752,226
INCOME FROM OPERATIONS	$ 44,987,638	$ 38,157,482
Depreciation and amortization	32,263,097	27,774,510
OPERATING PROFIT	$ 12,724,541	$ 10,382,972
Non-operating income — net	2,563,331	2,513,861
INCOME BEFORE INTEREST EXPENSE	$ 15,287,872	$ 12,896,833
Interest on loans and debentures	11,297,912	11,491,258
NET INCOME	$ 3,989,960	$ 1,405,575

Auditors' Report

TO THE HONOURABLE, THE MINISTER OF TRANSPORT,
OTTAWA, CANADA

We have examined the balance sheet of Air Canada as at December 31, 1965 and the statement of income for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Corporation, the accompanying balance sheet and related statement of income are properly drawn up so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for a change, which we approve, in accounting for employees' vacation costs whereby $4,200,000 was provided out of income as explained in Note 3 to the financial statements.

We further report that, in our opinion, proper books of account have been kept by the Corporation and the transactions that have come under our notice have been within the powers of the Corporation.

Touche, Ross, Bailey & Smart

February 7th, 1966

Chartered Accountants

Significant Statistics

		1965	1964	% Change
Revenue Passengers Carried	— Scheduled . .	4,673,754	4,093,754	+14%
	— Charter . . .	79,641	95,595	−17%
	— Total	4,753,395	4,189,349	+13%
Revenue Passenger Miles (000's)	— Scheduled . .	3,542,867	2,923,842	+21%
	— Charter . . .	172,768	227,114	−24%
	— Total	3,715,635	3,150,956	+18%
Mail Ton Miles (000's)		17,287	15,731	+10%
Express Ton Miles (000's)		5,562	4,393	+27%
Freight Ton Miles (000's)		56,100	41,197	+36%
Revenue Ton Miles (000's)		444,139	368,305	+21%
Available Seat Miles (000's)		5,700,020	4,969,959	+15%
Available Ton Miles (000's)		868,104	714,866	+21%
Revenue Passenger Load Factor		65.2%	63.4%	
Weight Load Factor		51.2%	51.5%	
Average Flight Stage Length — Miles*		389	371	+ 5%
Average Passenger Journey — Miles*		758	714	+ 6%
Available Ton Miles per Aircraft Hour		4,308	3,962	+ 9%
Average Number of Employees		12,253	11,635	+ 5%
Available Ton Miles per Employee		70,848	61,441	+15%

* Excludes Charter